

Message Text

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ACTION TRSE-00

INFO OCT-01 EA-06 ISO-00 CIAE-00 PM-03 H-02 INR-07 L-02

NSAE-00 NSC-05 PA-01 PRS-01 SP-02 SS-15 USIA-06

AID-05 COME-00 EB-07 FRB-03 XMB-02 OPIC-03 CIEP-01

LAB-04 SIL-01 OMB-01 STR-04 CEA-01 NEA-10 IO-10 FEA-01

/104 W

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P 230256Z MAY 75

FM AMEMBASSY MANILA

TO SECSTATE WASHDC PRIORITY 3717

INFO AMEMBASSY KUALA LUMPUR PRIORITY

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USADB

FOR NAC AGENCIES

E.O. 11652: ADS, DECLAS 8/31/75

TAGS: EAID, EFIN, MY

SUBJECT: PROPOSED ADB TECHNICAL ASSISTANCE LOAN -TENOM PANGI
POWER PROJECT (MALAYSIA)

SUMMARY: ADB MANAGEMENT PROPOSES \$1,198 MILLION
EQUIVALENT TECHNICAL ASSISTANCE (TA) LOAN FROM
ORDINARY CAPITAL RESOURCES TO LEMBAGA LETRIK SABAH
(FORMERLY SABAH ELECTRICITY BOARD) OF MALAYSIA TO
FINANCE FOREX COST OF ENGINEERING SERVICES FOR TENOM
PANGI POWER PROJECT. PROJECT IS LOCATED IN
KOTA KINABALU SERVICE AREA OF SABAH AND IS FIRST STAGE
OF EXPLOITATION OF HYDROELECTRIC POWER POTENTIAL OF
PADAS RIVER. USADB RECOMMENDS FAVORABLE NAC ACTION.

1. ADB DOC. R50-75 WITH ATTACHMENTS DESCRIBING
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PROPOSED LOAN POUCHED ADDRESSEES MAY 19. BOARD

CONSIDERATION SCHEDULED JUNE 10.

2. ADB MANAGEMENT PROPOSING \$1.198 MILLION TA LOAN FROM ORDINARY CAPITAL RESOURCES TO LEMBAGS LETRIK SABAH (LLS) OF MALAYSIA FOR TENOM PANGI POWER PROJECT. PROCEEDS WILL FINANCE FOREX COST OF CONSULTANCY SERVICES FOR PREPARATION OF DETAILED DESIGN, SPECIFICATIONS AND TENDER DOCUMENTS SUITABLE FOR INTERNATIONAL COMPETITIVE BIDDING FOR ALL WORK REQUIRED TO CONSTRUCT DIVERSION WEIR, POWER PLANT AND TRANSMISSION LINE TO SERVE KOTA KINABALU SERVICE AREA IN SABAH. PROPOSED TERMS ARE 10 YEAR AMORTIZATION INCLUDING 2 YEAR GRACE PERIOD, 8-3/4 PERCENT INTEREST. LLS TO BE BORROWER AND EXECUTING AGENCY, AND GOVERNMENT OF MALAYSIA TO BE GUARANTOR.

3. DURING PAST FIVE YEARS, PEAK POWER DEMAND IN KOTA KINABALU SERVICE AREA OF SABAH HAS INCREASED ANNUALLY BY AVERAGE OF 16 PERCENT. WHILE OVERALL FUTURE DEMAND FOR POWER IN SABAH IS PROJECTED TO GROW BY ABOUT 17 PERCENT ANNUALLY, POWER DEMAND IN KOTA KINABALU SERVICE AREA IS EXPECTED TO GROW FASTER DUE TO IMPACT OF OFFSHORE OIL DEVELOPMENT ACTIVITIES ON CONSTRUCTION OF RESIDENTIAL AND COMMERCIAL BUILDINGS IN THAT AREA. ALL GENERATING UNITS ARE DEISEL-POWERED. DUE TO LONG DISTANCES BETWEEN MAJOR LOAD CENTERS, THERE ARE NO INTERCONNECTING TRANSMISSION LINES AND EACH LOAD CENTER GENERATES INDEPENDENTLY.

4. IN AUGUST SUNRO BANK APPROVED \$198,000 TA GRANT TO MALAYSIA FOR SABAH POWER DEVELOPMENT PROJECT TO STUDY HYDROPOWER DEVELOPMENT IN PADAS RIVER AS ONE SOURCE OF ENERGY TO SUPPLY KOTA KINABALU AND OTHER MAJOR LOAD CENTERS. REPORT OF CONSULTANTS WAS FINALIZED IN EARLY 1974 AND CONFIRMED TECHNICAL FEASIBILITY AND ECONOMIC VIABILITY OF PROPOSED HYDROPOWER STATION NEAR TENOM PANGI ON WEST COAST OF SABAH. THIS WOULD BE FIRST STAGE PROJECT AS HYDROPOWER POTENTIAL OF PADAS RIVER BASIN SOUTH OF KOTA KINABALU IS HUGE AND COULD THEORETICALLY MEET ALL OF SABAH'S REQUIREMENTS UP TO 1990'S. HOWEVER, LIMITED OFFICIAL USE

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DUE TO LONG DISTANCES BETWEEN LOAD CENTERS AND THEIR RELATIVELY SMALL SIZES, INTERCONNECTIONS ARE NOT EXPECTED TO BE FEASIBLE BEFORE 1990.

5. PROPOSED PROJECT IS TO BE IMPLEMENTED IN TWO PHASES. IN FIRST PHASE, PROPOSED TA WOULD FINANCE FOREX COST OF DETAILED DESIGNS, COST ESTIMATES AND TENDER DOCUMENTS. AFTER DETAILED DESIGNS ARE COMPLETED AND

FINANCING FOR PROJECT IS SECURED, SECOND PHASE
CONSTRUCTION WOULD BE UNDERTAKEN. POWER STATION
ITSELF IS EXPECTED TO BE COMMISSIONED IN 1980. TWO-
PHASE APPROACH IS INTENDED TO HELP RESOLVE MOST
TECHNICAL DIFFICULTIES THAT MAY EXIST PRIOR TO
TENDERING, ESTABLISH MORE RELIABLE COST ESTIMATES
AND MINIMIZE RISK OF POSSIBLE COST OVERRUNS.

6. FOR PROPOSED TA, CONSULTING FIRM WOULD BE ENGAGED
IN ACCORDANCE WITH BANK'S GUIDELINES OF USES OF
CONSULTANTS, AND ENGINEERING REPORT IS EXPECTED TO BE
SUBMITTED WITHIN TWELVE TO FOURTEEN MONTHS. INTENTION
OF STATE GOVERNMENT AND LLS IS TO SEEK BANK LOAN
SUBSEQUENTLY TO ASSIST IN FINANCING CONSTRUCTION OF
PROJECT. HOWEVER, APPROVAL OF PROPOSED TA WOULD
NOT COMMIT BANK RE ANY FUTURE FINANCING.

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P 230256Z MAY 75

FM AMEMBASSY MANILA

TO SECSTATE WASHDC PRIORITY 3718

INFO AMEMBASSY KUALA LUMPUR PRIORITY

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7. TOTAL COST OF PROPOSED TA LOAN IS ESTIMATED AT \$1.398 MILLION EQUIVALENT, OF WHICH \$1.198 MILLION OF DIRECT COSTS ASSOCIATED WITH PROPOSED TA PLUS \$98,000, WHICH IS COST OF ORIGINAL TA (APPROVED IN 1972 FOR SABAH POWER DEVELOPMENT FEASIBILITY STUDY) IN EXCESS OF \$100,000 AND IS TO BE INCLUDED IN FOREX COST OF PROPOSED TA LOAN, IN ACCORDANCE WITH BANK POLICY WHEN BANK LOAN RESULTS FROM FEASIBILITY STUDY. LOCAL CURRENCY COST OF \$200,000 WOULD BE MET BY LLS.

8. LLS, BOTH BORROWER AND EXECUTING AGENCY, IS STATUTORY CORPORATION WHOLLY OWNED BY STATE OF SABAH AND IS UNDER JURISDICTION OF MINISTRY OF COMMUNICATIONS AND WORKS. IT IS SUCCESSOR COMPANY TO NORTH BORNEO ELECTRICITY BOARD, ESTABLISHED IN 1957. BOARD'S TITLE WAS CHANGED TO SABAH LIMITED OFFICIAL USE

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ELECTRICITY BOARD IN AUGUST 1963 WHEN STATE OF SABAH CAME INTO EXISTENCE AND TO LEMBAGA LETRIK SABAH IN AUGUST 1973. LLS OPERATIONS ARE EFFICIENT (WITH LOW SYSTEM LOSS OF ABOUT 15 PERCENT). BANK MISSION CONSIDERS IT TO BE WELL MANAGED ELECTRIC UTILITY WITH CAPABLE ENGINEERING AND TECHNICAL STAFF. HOWEVER, CONSULTANTS WILL ADVISE LLS ON ORGANIZATION AND STAFFING OF PLANNED HYDROPOWER DEPARTMENT.

9. ALTHOUGH LLS OPERATIONS WERE PROFITABLE UP TO END OF 1973, RECENT SERIES OF FUEL OIL COST INCREASES IS EXPECTED TO HAVE RESULTED IN NET LOSS OF ABOUT M\$3.0 MILLION IN 1974. EFFECTIVE MARCH 1, 1975, LLS INCREASED ITS TARIFF BY 34 PERCENT, WHICH WAS FIRST SUBSTANTIAL REVISION SINCE 1966. FUEL PRICE ADJUSTMENT CLAUSE RECOMMENDED BY BANK MISSION IN VIEW UNCERTAINTIES OF FUTURE OIL PRICES AND TOTAL CURRENT DEPENDENCE OF LLS ON LIL-FIRED GENERATING PLANT WAS ALSO INTRODUCED ON SAME DATE. (SEE SCHEDULE 5 OF TA LOAN AND GUARANTEE AGREEMENT.)

10. PROPOSED PROJECT IS PART OF LONG-TERM POWER DEVELOPMENT PROGRAM AND IS ACCORDED HIGH PRIORITY IN SABAH'S SECOND FIVE-YEAR PLAN (1971-1975). IN VIEW GREATLY INCREASED OPERATING COSTS OF ALTERNATIVE POWER SOURCES DUE TO INCREASED FUEL OIL COSTS, PROJECT IS EVEN MORE ATTRACTIVE THEN ORIGINALLY ENVISIONED. USADB SUPPORTS PROPOSAL AND RECOMMENDS FAVORABLE NAC ACTION.

11. REQUEST KUALA LUMPUR'S COMMENTS FOR NAC AGENCIES, INFO USADB MANILA, PURSUANT TO STATE 119795 DATED

3 JULY 1972.

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